

FDIC State Profile

Fall 2005

Nebraska

Nebraska's economic expansion continued in the second quarter, as it achieved a record number of jobs.

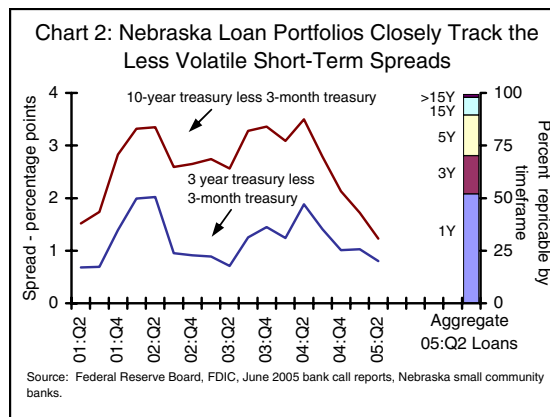
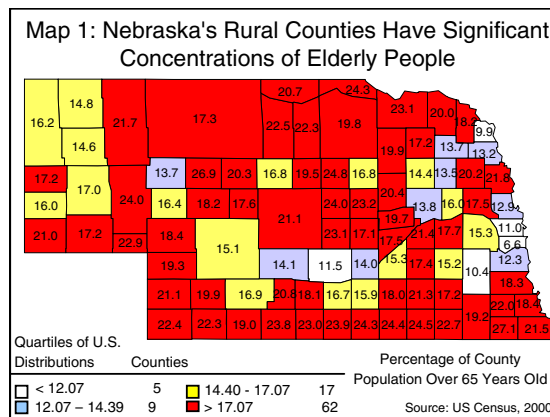
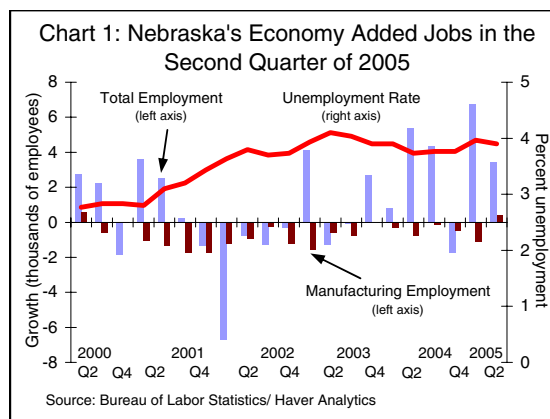
- Nebraska's economy added more than 3,000 jobs in the second quarter, attaining a record level of more than 934,000 jobs on a seasonally adjusted basis (see Chart 1). This marks the fourth consecutive quarter that employment has exceeded the level attained before the downturn of 2001. Hiring in wholesale and retail trade and business services contributed the most to the quarterly increase. However, year-over-year employment growth was less than the national rate.
- The manufacturing sector remained weak, adding about 500 jobs, the first increase in five years. In the second quarter, there were 15,000 fewer manufacturing jobs than the peak reached in 2000.
- The recent hurricanes' effects on the Nebraska economy appear to be modest and are centered on energy. Like other states in the region, energy prices have risen sharply, but supplies have remained adequate. Farmers face substantially higher fuel costs during the harvest season.

Nebraska's rural counties have relatively large concentrations of elderly people.

- Based on 2000 Census data, 62 of Nebraska's 93 counties rank in the top quarter of the nation's counties in terms of population older than 65. All but one of these counties are rural (see Map 1).
- Large concentrations of the elderly tend to be associated with rural depopulation, as 56 of the older counties lost population between 1970 and 2000. These counties typically experience the out-migration of younger people seeking educational or employment opportunities.
- The Census Bureau projects that by 2030, 20.7 percent of Nebraska's population will be older than 65, compared with 19.7 percent for the United States.

Aging populations pose challenges to financial institution funding.

- Insured institutions operating in rural areas face funding challenges, especially in areas with large elderly populations. Commonly, when elderly depositors pass



away, their deposits quickly move to their heirs' institutions, often located in far-away metropolitan areas.

- Partly resulting from the aging population in Nebraska's rural areas, the state's rural core deposit base has grown just 24.3 percent over the past decade compared with 52.0 percent for the nation.
- As Nebraska's rural areas continue to grow older over the next few decades, funding may become increasingly difficult to maintain.

Bank earnings remain solid as rising short-term rates have offset moderate declines in term yield spreads.

- Earnings performance remains positive for most Nebraska institutions. The median return-on-assets ratio was 1.14 percent at June 2005, unchanged from one year ago. Only 3.1 percent of institutions were unprofitable in the first half of the year.
- The declining spread between three-month and ten-year interest rates has many national banking analysts fretting about potential net interest margin (NIM) compression. However, Nebraska's small community banks do not have the long-term loan exposure that would make them highly responsive to changes in long-term rates.¹ Nearly two-thirds of community bank loans reprice within three years; therefore, margins tend to track more closely the much less volatile three-month to three-year treasury spreads (see Chart 2).
- Given the typical asset-sensitive nature of small community banks, rising short-term rates often benefit small bank margins, even when the yield curve flattens. In fact, the June 2005 median NIM in Nebraska's small community banks was slightly higher than a year earlier.

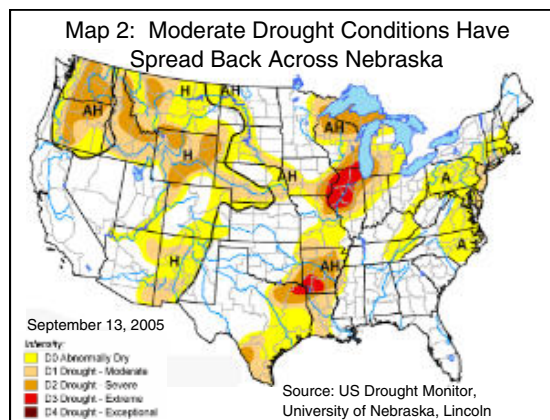
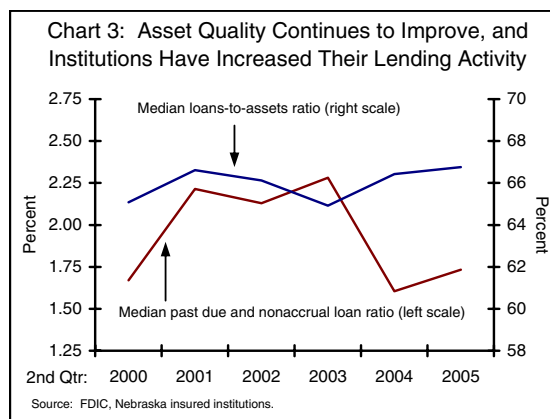
Asset quality continues to improve at Nebraska insured institutions, but loan growth is stable.

- Delinquent loans at Nebraska's insured institutions increased slightly from one year earlier, and represented 1.73 percent of total loans in June 2005 (see Chart 3).
- Although the state has seen a recent spike in consumer bankruptcies as a result of pending bankruptcy reform enactment, the typical Nebraska institution has low consumer loan exposure, and consumer loan charge-offs historically have been negligible.
- Although economic activity continues to gain traction in Nebraska, loan growth has not accelerated in the state.

Nebraska's institutions ranked 48th in the nation in year-over-year loan growth in second quarter 2005.

Drought conditions continue across most of Nebraska.

- Drought conditions have worsened across the state over the past quarter, but are significantly improved over the same period last year (see Map 2). Topsoil and subsoil moisture levels continue to be very dry.
- Despite these conditions, the United States Department of Agriculture (USDA) projected that the state will produce the second largest corn crop in its history. However, large stocks remaining from last year's harvest will cause lower prices in the upcoming marketing year.
- The USDA forecasts that Nebraska's soybean harvest will be the third largest in its history. Reduced yields in other parts the country and strong demand will result in higher prices next year.



¹Small community banks are defined as FDIC-insured commercial banks with less than \$250 million in total assets that have been in existence at least three years. At June 30, 2005, these institutions represented 87 percent of all insured institutions in Iowa.

Nebraska at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.8%	1.0%	0.9%	0.3%
Manufacturing (11%)	-1.3%	-2.2%	-1.8%	-1.6%	-3.4%
Other (non-manufacturing) Goods-Producing (5%)	-0.1%	0.6%	3.9%	1.5%	3.0%
Private Service-Producing (67%)	1.9%	2.9%	1.6%	1.5%	0.7%
Government (17%)	0.1%	0.5%	-0.8%	0.2%	0.5%
Unemployment Rate (% of labor force)	3.9	4.0	3.7	3.8	4.0

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	5.0%	5.0%	5.8%	5.6%	6.1%
Single-Family Home Permits	-3.8%	13.1%	11.3%	4.4%	18.9%
Multifamily Building Permits	-40.0%	129.8%	-5.7%	14.1%	-36.0%
Existing Home Sales	0.2%	11.2%	12.9%	4.7%	10.8%
Home Price Index	5.6%	5.6%	5.0%	5.1%	3.1%
Bankruptcy Filings per 1000 people (quarterly annualized level)	6.41	5.54	5.33	5.17	4.77

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	262	262	269	263	270
Total Assets (in millions)	46,123	45,364	46,097	46,088	45,614
New Institutions (# < 3 years)	1	1	2	2	3
Subchapter S Institutions	83	82	79	79	75

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.73	2.11	1.61	1.69	1.85
ALLL/Total Loans (median %)	1.53	1.55	1.57	1.51	1.57
ALLL/Noncurrent Loans (median multiple)	1.95	2.13	1.85	2.18	2.01
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.07	0.12

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.86	9.87	9.76	9.67	9.68
Return on Assets (median %)	1.19	1.12	1.15	1.08	1.05
Pretax Return on Assets (median %)	1.55	1.46	1.54	1.42	1.38
Net Interest Margin (median %)	4.18	4.10	4.12	4.18	4.19
Yield on Earning Assets (median %)	6.11	5.88	5.75	5.88	6.15
Cost of Funding Earning Assets (median %)	1.96	1.82	1.68	1.72	2.02
Provisions to Avg. Assets (median %)	0.00	0.00	0.01	0.07	0.11
Noninterest Income to Avg. Assets (median %)	0.51	0.51	0.54	0.53	0.55
Overhead to Avg. Assets (median %)	2.74	2.74	2.71	2.84	2.81

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	66.8	65.4	66.4	66.7	64.7
Noncore Funding to Assets (median %)	18.3	17.9	17.6	17.3	17.1
Long-term Assets to Assets (median %, call filers)	11.4	11.0	12.3	11.7	11.7
Brokered Deposits (number of institutions)	83	81	81	83	81
Brokered Deposits to Assets (median % for those above)	2.7	2.8	2.2	2.6	2.3

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	80.3	74.4	75.4	76.7	75.6
Commercial Real Estate	59.0	58.7	53.2	57.9	46.8
<i>Construction & Development</i>	3.3	2.8	2.6	3.0	2.6
<i>Multifamily Residential Real Estate</i>	0.0	0.0	0.0	0.0	0.0
<i>Nonresidential Real Estate</i>	41.5	41.3	42.8	42.5	39.6
Residential Real Estate	64.2	65.2	66.8	67.6	66.4
Consumer	37.6	38.5	40.6	38.8	44.2
Agriculture	278.2	263.2	270.1	292.1	269.8

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Omaha-Council Bluffs, NE-IA	75	13,804	< \$250 million	239 (91.2%)
Lincoln, NE	25	4,435	\$250 million to \$1 billion	16 (6.1%)
Sioux City, IA-NE-SD	33	2,042	\$1 billion to \$10 billion	6 (2.3%)
			> \$10 billion	1 (0.4%)